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September 30, 1997

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, D.C. 20554

Re: Ex Parte Meeting
CC Docket No. 96-262

Dear Mr. Caton:

On September 30, 1997, Whit Jordan, Jay Bennett, Bob McDonnell and Linda Kent, representing the United States Telephone Association (USTA), met with Richard Metzger, John Nakahata, Jim Schlichting, Rich Lerner and Glen Reynolds of the Common Carrier Bureau to discuss issues raised by USTA in its Petition for Reconsideration and/or Clarification filed July 11, 1997. The attached materials, which reflect USTA's position as submitted in its Petition, were distributed and discussed. However, USTA clarified that the differentiation of charges also affects SLCs as well as PICCs.

The original and a copy of this ex parte notice are being filed in the Office of the Secretary on September 30, 1997. Please include it in the public record of this proceeding.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Linda Kent".

Linda Kent
Associate General Counsel

cc: Richard Metzger
John Nakahata
Jim Schlichting
Rich Lerner
Glen Reynolds

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Retail Marketing Expenses Should Be Recovered From All lines

- **Order requires recovery of marketing expenses from only multi line business and non-primary lines SLCs and PICCs**
 - **No factual basis to restrict recovery to only multi line and non-primary lines**
 - **Distorts market**
 - **Not cost causative**
- **USTA proposes recovery from all lines**
 - **To determine a uniform per line charge, Interstate marketing expenses would be divided by SLC line count**
 - **Amounts above the SLC caps would be recovered from PICCs up to their caps**
 - **Residual would be recovered from originating MOU charges and terminating MOU charges**
- **USTA Plan**
 - **Recognizes marketing costs incurred for all service categories**
 - **Does not cause pricing distortions for competitive lines**

Retail Marketing Expenses Should Be Recovered From All Lines (cont.)

- **USTA study of 9 major ILECs shows costs incurred for all services**
- **Majority of parties support USTA position:**
 - **Ad Hoc, Sprint, Bell Atlantic, Ameritech, US West, Southern New England, BellSouth**
- **Only opposition filed by MCI**
 - **USTA and Bell Atlantic studies show clearly MCI allegations are wrong**

Application of PICCs on Centrex lines must be on an equitable manner to reflect trunk equivalency

- **Order requirement to recover PICCs on a per line basis will result in disproportionate assessment on Centrex lines competing with similarly sized PBX arrangements**
 - **FCC requirement disadvantages Centrex as a competitive alternative to PBX arrangements**
 - **Not technologically neutral**
 - **Not more cost causative then using trunk equivalents**
- **There is no legal basis to discriminate against Centrex customers**
- **USTA ex parte filed September 26 proposes a single line to trunk equivalency ratio of 9 to 1 to assess Centrex PICCs to IXC's**
 - **Based on weighted average trunk equivalency tables from state tariffs and NARs relationship to Centrex Lines**
 - **Simple to administer and verify**
 - **Addresses concerns regarding complexity and consistency**

Application of PICCs on Centrex lines must be on an equitable manner to reflect trunk equivalency (cont.)

- **Use of trunk equivalency ratio**
 - **Neutralizes market distortions caused by FCC PICC application**
 - **Reduces rate shock to existing customers**
 - **Sustains the competitive alternatives**

- **Majority of parties support USTA proposal for use of trunk equivalency:**
 - **Ad Hoc, American Petroleum Institute, Ameritech, Bell Atlantic, Boston University, National Centrex Users Group, Southern New England Tel., US West**

- **Opponents - AT&T, Time Warner, and TCG - provide no evidence justifying discrimination against Centrex users by the current plan**



Implementation of Non-primary line PICCs should be delayed

- **Order requires implementation of Non-primary line PICCs effective January 1, 1998**
 - **The NPRM regarding definition of Non-primary lines was released on September 4, comments and replies due September 25 and October 9.**
 - **Release of an order even in early December does not allow time for development and implementation of training, administration and billing systems, nor customer notification and education**
 - **Crash implementation risks customer confusion and billing errors, and additional implementation costs**
- **USTA proposes extending the implementation date to January 1, 1999**
 - **Allows time to economically develop and implement changes necessary to implement Non-primary PICCs**
 - **Avoids customer confusion and reduces risks of billing errors**
 - **Revenue Neutral**



The price cap X-Factor should not be applied to universal service contributions

- **Based on the Order, price cap mechanics require the application of the productivity offset (X-factor) to the exogenous cost adjustment for universal service contributions**
 - **Prohibits legitimate opportunity to recover mandated universal services contributions**
 - **Applies the X-factor to costs not affected by LEC productivity growth**
- **USTA Proposes that the PCI for each price cap basket be increased by an amount sufficient to offset the X-factor impact on USF contributions and allow the LECs and opportunity to recover their costs**